

INTER-AMERICAN DEVELOPMENT BANK ACT

JULY 8, 1959.—Ordered to be printed

Mr. FULBRIGHT, from the Committee on Foreign Relations, submitted the following

REPORT

[To accompany S. 1928]

The Committee on Foreign Relations, to whom was referred the bill (S. 1928) to provide for the participation of the United States in the Inter-American Development Bank, having considered the same, report it favorably with amendments, and recommend that, as amended, it do pass.

1. MAIN PURPOSE OF THE BILL

This bill provides for acceptance by the United States of the agreement establishing the Inter-American Development Bank (hereinafter referred to respectively as the "agreement" and the "Bank"), which was signed on April 9, 1959, in Washington by representatives of 21 American Republics. In addition to providing for U.S. membership in the Bank, the bill authorizes appropriations by Congress totaling \$450 million without fiscal year limitation. Of this sum, \$350 million would be used to purchase 35,000 shares of capital stock (with a par value of \$10,000 each), while the remainder would pay the U.S. subscription to a Fund for Special Operations set up within the Bank.

2. BACKGROUND

The Latin American countries have long been interested in creating, with the assistance and participation of the United States, a financial institution specifically responsive to their need for economic development and expanded mutual cooperation on the most rational possible basis. This interest has markedly grown during the last few years, along with a spreading belief that the United States has been too preoccupied with the cold war problems to give adequate attention to its traditional good neighbor policy toward Latin America. The announcement in mid-1958 that the U.S. Government was ready

to consider establishment of an inter-American financial institution was therefore especially welcome to Latin Americans who were concerned about the misinterpretations of U.S. policy actions current in their countries.

Following a meeting of the foreign ministers of the 21 republics convoked in Washington by the United States last September, the Inter-American Economic and Social Council created a specialized committee representing all 21 countries in order to negotiate an agreement for the envisaged institution. Executive branch agencies were broadly represented in the U.S. delegation to the negotiating committee, which completed its work during the first 3 months of this year. The resulting agreement has been submitted to the 21 governments for acceptance or ratification in accordance with the laws of each. Membership is open to all participants in the Organization of American States, and all in fact have signed the agreement. The agreement will enter into force and Bank operations will commence upon ratification or acceptance by countries whose subscriptions make up not less than 85 percent of the total quotas; it is hoped that such will have been the case by the end of 1959.

The Bank's primary aim will be to accelerate the economic development of its members, both on an individual and a collective basis. In working toward that goal, the Bank will promote the investment of public and private development capital, use its own and other available resources for financing economic growth, encourage private investment and supplement it where necessary, cooperate in fostering the orderly growth of foreign trade, and provide advice and technical assistance for the preparation, financing, and implementation of development plans and projects. There is full recognition in the agreement of the vital roles of private investment and of public lending institutions such as the Export-Import Bank and the International Bank for Reconstruction and Development (hereinafter referred to as the "IBRD"). The Bank is directed to cooperate to the maximum extent with these private and public sources of development capital.

Two features of the Bank's operations which are particularly responsive to the needs of the Latin American countries differentiate these operations in extent, if not in kind, from those of the above-mentioned existing institutions. The first concerns the degree of participation by the Latin American countries. Together they will make a larger financial contribution to the Bank than will the United States, and their voting power, and consequent responsibility, will reflect that majority role. The second feature, which deserves special emphasis, is the provision for technical assistance. Under this heading, the Bank can assist in the preparation and execution of development plans and projects, and it can provide specialized training for personnel concerned with development activities. This type of educational function has been very successfully performed by the IBRD and the International Monetary Fund on a global basis. Here it will be applied in a specific region on a scale a great deal larger than has been possible under existing conditions. It is anticipated that such advice and assistance will make a maximum contribution to the economic development of member countries in accordance with sound business principles and a high degree of fiscal responsibility.

At this point it should be noted that the Bank is closely patterned upon the organization and procedures of the IBRD, which has a

well-deserved reputation for efficient and successful service to the free world. Also, the language of this bill conforms in almost all respects to the Bretton Woods Agreements Act providing for U.S. participation in the IBRD and the International Monetary Fund. The bill makes similar provisions for marketing of Bank securities in the United States, giving the Bank necessary immunities under American law, establishing procedure for dealing with possible legal disputes in U.S. courts, and for coordination of U.S. activities through the National Advisory Council.

3. FINANCIAL PROVISIONS

The proposed total resources of the Bank amount to \$1 billion (the U.S. share being \$450 million), in terms of U.S. dollars of the weight and fineness in effect on January 1, 1959. Within a period of 60 days from the date of a member's payment, the Bank will determine whether there must be an adjustment through the provision of additional sums to make any such payment equivalent to the standard described above. Moreover, the currency holdings of the Bank derived from members' payments will be maintained at the same standard of value. Of the \$1 billion total resources, \$850 million will comprise the Bank's authorized capital stock, and \$150 million will constitute the initial resources of the Fund for Special Operations (hereinafter referred to as the "Fund").

With respect to the Bank's ordinary operations, the U.S. subscription of 35,000 shares of stock (representing \$350 million) will amount to about 41 percent of the total 85,000 shares; the same approximate percentage will apply to this country's voting power in Bank operations as a whole. The proposed subscriptions of other members, totaling \$500 million, are based on their quotas in the International Monetary Fund.

Of the \$850 million capital stock, \$400 million is to be paid in (of which the U.S. share is \$150 million), while \$450 million will be a callable portion (the U.S. share being \$200 million) to back borrowings or guarantees made by the Bank. Half of the paid-in \$400 million must be in the form of gold or dollars—or any combination of the two—and half in national currency. No gold payment will necessarily be required of the United States, and 50 percent of the dollars it is to pay in will be considered "national currency," a term which connotes the possibility of some slight restriction on its utilization. An installment arrangement for the paid-in subscriptions provides that there will be payment of a first portion equaling 20 percent payable upon acceptance of membership and not later than September 30, 1960, a second portion (40 percent) no sooner than a year after that September date, and a final installment of 40 percent on a date specified by the Bank on or after September 30, 1962. Except in case of a waiver by a three-fourths majority vote, the second and third installments will not become due unless 90 percent of the prior installments owed by the members have been paid, and obligations to the Fund have been met. All installments will be composed of gold or dollars and of national currency in equal portions. The first U.S. payment will be \$30 million and the second and third \$60 million each.

The sum of \$150 million for the special Fund is all to be paid in, and \$100 million of it will be the U.S. share. The other provisions

described in connection with payments toward the regular operations will also apply to the Fund. However, the first installment will be 50 percent, payable on acceptance of membership but no later than September 30, 1960. The balance will be paid in one or more installments not earlier than 1 year after the Bank has begun operations and not later than the date on which the last paid-in capital stock installment becomes due.

Resources of the Inter-American Development Bank

[In millions of U.S. dollars]

	United States	Latin American countries	Total
Bank capital:			
Paid in (in 3 installments):			
Gold or dollars.....	75	125	200
National currency.....	75	125	200
Callable.....	150	250	400
Total.....	200	250	450
Total.....	350	500	850
Proportion (percent).....	41.2	58.8	100
Funds for Special Operations (in 2 or more installments):			
Gold or dollars.....	50	25	75
National currency.....	50	25	75
Total.....	100	50	150
Total (Bank capital and Fund for Special Operations)...	450	550	1,000

In terms of all the foregoing provisions, the United States would be obligated to provide resources totaling \$280 million upon acceptance of membership and no later than September 30, 1960. Of this sum, \$30 million would represent the first installment of paid-in capital for ordinary operations, \$50 million would be the initial payment to the Fund, and \$200 million would constitute the callable capital, or guarantee fund.

In addition to general provisions for future increases in the Bank's capital, the agreement specifically provides for a \$500 million increase in callable capital, which in effect could not occur before 1962 and would require approval by a three-fourths majority of the total voting power of the member countries. The same proportionate vote would be required for additional contributions by the members to the resources of the Fund, for which no specific provision is made. The approval of Congress is required under S. 1928 before any such increased U.S. subscriptions could be made.

4. OPERATIONS OF THE BANK

The ordinary operations of the Bank will be kept entirely distinct and separate from those of the special Fund, and for the most part will reflect IBRD practices. Thus, for these operations, the Bank will both use its own resources and place considerable emphasis upon raising funds in private capital markets against the \$450 million in callable capital. Also, loans, which may be made to member countries, their political subdivisions, or private enterprises—whether individually or in some regional grouping—must be repaid in the currency lent. The Bank will determine conditions and terms,

such as interest rates and amortization schedules, at the time a loan is made; ordinarily it will charge a 1-percent commission on all loans. However, unlike the comparable IBRD procedure, it is optional for the Bank to require a guarantee from the member government for a loan to a private concern in its country. Foreign currency loans will primarily be made to cover foreign exchange costs of a Bank-financed project. To the extent that the Bank provides financing for a project's local currency costs, such sums normally will be met from a member's "national currency" subscription payment, but in certain cases the Bank may use gold or foreign currencies to cover a portion of the local costs, especially if the project indirectly increases the borrowing country's need for foreign exchange.

While the special operations of the Fund generally will be governed by the same provisions, loans from the Fund may be repaid partially or wholly in the currency of the borrower, rather than in the currency lent. At the same time, local currencies received as loan repayments or on quota account may be used by the Fund to purchase goods and services in the country concerned in connection with projects in other countries. U.S. approval will be needed for all loans by the Fund, since a two-thirds affirmative vote by the members is required for these special operations, and the U.S. voting power is about 40 percent of the total.

5. ADMINISTRATIVE AND OTHER PROVISIONS

A Board of Governors will be the final authority in the administration of the Bank, and each member country will appoint a Governor and an alternate for terms of 5 years. Among the powers of the Governors are the admission or suspension of members, changes in the capital stock, distribution of dividends, and election of the President of the Bank.

Under the Governors will be a Board of seven Executive Directors, of whom one will be appointed by the United States and six elected by the Governors of the other members through a complex system designed to give representation both to small and large countries and to the various Latin American regions. The Directors will have 3-year terms and will be responsible for the conduct of Bank operations; the Board will be in continuous session in Washington.

The President of the Bank will hold office for 5 years. He will be elected by an absolute majority of the total number of Governors, with not less than a majority of the total voting power of the member countries. Upon his recommendation, the Executive Directors will appoint an Executive Vice President.

A member country may at any time withdraw from membership, and its withdrawal will become effective 6 months after delivery of notice. Upon accepting the agreement, each member must pay one-tenth of 1 percent of the price of its shares in gold or dollars; any payment made will be returned if a sufficient number of countries fail to ratify.

6. COMMITTEE ACTION

On May 11, 1959, the Senate received a message from the President of the United States in which he submitted to the Congress the agreement for the establishment of the Inter-American Development Bank. The President urged the Congress to enact legislation authorizing him

to accept U.S. membership in the Bank, and to assume the financial obligations described in the agreement. This step was strongly recommended by the National Advisory Council on International Monetary and Financial Problems in a special report which the President simultaneously transmitted to the Congress. The President's message and the special report are printed as House Document 133. By request, Senator Fulbright on May 13, 1959, introduced S. 1928, which embodied the recommendations of the administration. The President's message and the bill were both referred to the Committee on Foreign Relations.

The committee held public hearings on June 23. Mr. T. Graydon Upton, Assistant Secretary of the Treasury, appeared on behalf of the Treasury Department and for Secretary Robert B. Anderson in favor of the bill. Under Secretary of State C. Douglas Dillon continued the administration's case for S. 1928. The only non-Government witness was Mr. Walter Harnischfeger, who represented an organization named the Citizens Foreign Aid Committee as opposed to the bill. A statement in support of the measure was received from a representative of the U.S. Council of the International Chamber of Commerce, Inc.

In executive session on June 30, the committee ordered the bill reported favorably with two amendments.

7. AMENDMENTS

During the course of the committee's consideration of S. 1928, two minor amendments were proposed and adopted. The first, which appears in section 7(a) of the bill, corrects a drafting error by deleting the words "to the President," in two places. The second amendment, which appears in section 5, is largely of a technical character. It adds a new proviso, reading as follows: "or (d) make a loan or provide other financing to the Bank, except that loans or other financing may be provided to the Bank by a U.S. agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations." The first clause reproduces the language of the Bretton Woods Agreements Act and tightens congressional control over U.S. financing of the Bank; the excepting clause is designed to avoid any possible future discrimination against the Bank in relation to other international organizations.

8. CONCLUSIONS

The Committee on Foreign Relations has long recognized the primary role of private capital in economic development abroad, and not least in Latin America. At the same time, the committee is well aware that certain basic economic facilities, which can only be financed with public resources, are prerequisite to the expanded foreign trade which encourages the flow of additional private investment. It also realizes how essential sound planning and fiscal responsibility are to the proper development of such basic facilities. The committee believes that the proposed Inter-American Development Bank is designed with these considerations fully in mind. The Bank will both utilize its own resources and raise funds in private capital markets; it will provide the technical assistance and promote the broad mutual

cooperation required for efficient planning and implementation of development projects. The fact that its structure and ordinary operations are closely patterned upon those of the IBRD promotes confidence that its objectives will be achieved. The relatively small special Fund should give much-needed flexibility to the Bank in carrying out those objectives.

An equally important aspect of the creation of this Bank is its contribution to even closer ties between the United States and its southern neighbors. In accepting membership, this country will display its unflagging concern for the well-being of the Latin American peoples, and its interest in the expansion of mutually profitable trade relations. For their part, the Latin American countries are prepared to take the major role in cooperating with the United States through an organization designed to promote common hemispheric interests.

The committee urges the Senate to enact S. 1928.



1870-1871. The first year of the war.

1871-1872. The second year of the war.

1872-1873. The third year of the war.

1873-1874. The fourth year of the war.

1874-1875. The fifth year of the war.

1875-1876. The sixth year of the war.

1876-1877. The seventh year of the war.

1877-1878. The eighth year of the war.

1878-1879. The ninth year of the war.

1879-1880. The tenth year of the war.

1880-1881. The eleventh year of the war.

1881-1882. The twelfth year of the war.

1882-1883. The thirteenth year of the war.

1883-1884. The fourteenth year of the war.

1884-1885. The fifteenth year of the war.

1885-1886. The sixteenth year of the war.

1886-1887. The seventeenth year of the war.

1887-1888. The eighteenth year of the war.

1888-1889. The nineteenth year of the war.

1889-1890. The twentieth year of the war.

1890-1891. The twenty-first year of the war.

1891-1892. The twenty-second year of the war.

1892-1893. The twenty-third year of the war.

1893-1894. The twenty-fourth year of the war.

1894-1895. The twenty-fifth year of the war.

1895-1896. The twenty-sixth year of the war.

1896-1897. The twenty-seventh year of the war.

1897-1898. The twenty-eighth year of the war.

1898-1899. The twenty-ninth year of the war.

1899-1900. The thirtieth year of the war.

1900-1901. The thirty-first year of the war.

1901-1902. The thirty-second year of the war.

1902-1903. The thirty-third year of the war.

1903-1904. The thirty-fourth year of the war.

1904-1905. The thirty-fifth year of the war.

1905-1906. The thirty-sixth year of the war.

1906-1907. The thirty-seventh year of the war.

1907-1908. The thirty-eighth year of the war.

1908-1909. The thirty-ninth year of the war.

1909-1910. The fortieth year of the war.

1910-1911. The forty-first year of the war.

1911-1912. The forty-second year of the war.

1912-1913. The forty-third year of the war.

1913-1914. The forty-fourth year of the war.

1914-1915. The forty-fifth year of the war.

1915-1916. The forty-sixth year of the war.

1916-1917. The forty-seventh year of the war.

1917-1918. The forty-eighth year of the war.

1918-1919. The forty-ninth year of the war.

1919-1920. The fiftieth year of the war.